

Confidential

Citibank - assessment of the current status/recommendations

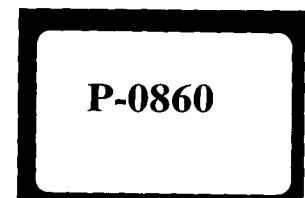
The April 17 memo indicates the following:

- highly unrealistic assessment of the degree of difficulty/cost/time necessary to create a new network;
- assumption (tested or untested) of other players' willingness to join CCI

The memo demonstrates and my social meetings this week confirm that:

- senior management of Citicorp in general and of Consumer Bank in particular is frustrated with the recent performance of the card business;
- the key decision makers (Reed, Bill Campbell - head of consumer business worldwide, Alvaro de Souza - head of consumer banking in the U.S., Brian Ruder - head of marketing for consumer bank worldwide) have very limited knowledge of the card industry.
- two of the four mentioned senior executives were brought to the bank to build the brand as a way to grow customer base to 1 billion by 2010, and the way to move P/E, and hence shareholder return up. They have vested interests in promoting this concept, and it will be very difficult to convince them otherwise. They will therefore push toward reduction of our brand advertising.
- these four individuals do not have a solid understanding of why monolines (particularly MBNA) have performed so much better than had CCI. In mid-1995, Roberta undertook an effort to understand these differences using Mercer Consulting, but the surprising credit losses, and unexpected attrition led to deterioration of overall results, which Roberta tried to cover with reduced acquisition spending, which only made things worse;
- in the absence of better explanation, there is the tendency to view associations as the source of problems;
- given an upcoming merger and uncertain future, some senior people (that applies less to Campbell, whose position seems to be secure, at least for the time being, and de Souza, but much more to people like Khana) feel the need to look strong and decisive and are promising Reed whatever looks aggressive.

The April 17 memo, written most likely by Khana, is an element of a poker game. The claim to build a global acceptance network in six months for \$1billion amounts to nothing more than wishful thinking, and they should know that. It is particularly unrealistic given all the mergers-related activities, even if the key players reached consensus. For Citi to do this on its own would be that much tougher. Using Discover wouldn't resolve global



issues at all. Teaming up with American Express would be a better route, but that would amount to supporting another strong global brand.

Recommendations:

Given strong egos involved, I believe that rather than calling their bluff, we should try educate/inform/provide sanity check in a non-threatening, non-confrontational manner. We should make sure that they well understand the facts, the extent of their contribution to Visa as well as benefits derived from the system.

We should also offer them our consulting services. I believe that very quickly we could sit down with Campbell and his team and tell them what truly separates the best performers from the mediocre in the late 1990s. We could offer them a support of a profit improvement team, which we could assemble very quickly. It would likely reduce the tension as well as enhance our credibility with true decision makers. One way or the other if we want to preserve this relationship and avoid similar crises in the future we have to develop much closer relationships with those who do call shots, and whose mid to long-term success depends on performance of the card business (that means DeSouza and Ruder, rather than people like Khana, who tomorrow will try to make a name for himself trying to "fix" another big problem).

And finally, we should engage them in continuation of the dialogue regarding potential adjustments to the governance structure.

If the dialogue seems to be heading nowhere, at some point we should state clearly our opinion that should Citi follow through with its threat it would hurt Visa but the real price would be paid by Citicorp's shareholders. Customers' and merchants' confusion and customer attrition (which would be unavoidable) is the last thing Citibank needs to compete successfully with companies which demonstrated their ability to retain customers and steal them from others in less volatile times.

Best versus the mediocre in the late 1990s

- aggressive acquisition efforts
- enhanced segmentation/targeting (data mining)
- reduced time to market
- customized products/co-branded issues
- best-in-class economics of customer service
- ability to control credit losses